REPORT OF THE AUDIT OF THE FORMER LESLIE COUNTY SHERIFF'S SETTLEMENT - 2001 TAXES

January 5, 2003



CRIT LUALLEN AUDITOR OF PUBLIC ACCOUNTS

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CRIT LUALLEN AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Kenneth R. Witt, Leslie County Judge/Executive
Honorable Fred Davidson, Former Leslie County Sheriff
Honorable John Morgan, Leslie County Sheriff
Members of the Leslie County Fiscal Court

The enclosed report prepared by Berger & Company, CPA, PSC, Certified Public Accountants, presents the former Leslie County Sheriff's Settlement - 2001 Taxes as of January 5, 2003.

We engaged Berger & Company, CPA, PSC to perform the financial audit of this statement. We worked closely with the firm during our report review process; Berger & Company, CPA, PSC evaluated the former Leslie County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Crit Luallen

Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE FORMER LESLIE COUNTY SHERIFF'S SETTLEMENT - 2001 TAXES

January 5, 2003

Berger & Company, CPA, PSC has completed the audit of the Sheriff's Settlement - 2001 Taxes for former Leslie County Sheriff as of January 5, 2003. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The former Sheriff collected taxes of \$2,613,139 for the districts for 2001 taxes, retaining commissions of \$108,833 to operate the Sheriff's office. The former Sheriff distributed taxes of \$2,502,770 to the districts for 2001 Taxes. Taxes of \$2,107 are due to the districts from the former Sheriff and refunds of \$2,680 are due to the former Sheriff from the taxing districts.

Report Comments:

- The Former Sheriff Should Collect All Amounts Due From Districts And Pay Amounts Due To Districts
- The Former Sheriff Should Have Collected Prior Year Uncollected Amounts Due Tax Account

Deposits:

The former Sheriff's deposits were insured and collateralized by bank securities or bonds.

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Independent Auditor's Report

We have audited the former Leslie County Sheriff's Settlement - 2001 Taxes as of January 5, 2003. This tax settlement is the responsibility of the former Leslie County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in the Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the former Leslie County Sheriff's taxes charged, credited, and paid as of January 5, 2003, in conformity with the modified cash basis of accounting.

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Kenneth R. Witt, Leslie County Judge/Executive
Honorable Fred Davidson, Former Leslie County Sheriff
Honorable John Morgan, Leslie County Sheriff
Members of the Leslie County Fiscal Court

In accordance with <u>Government Auditing Standards</u>, we have also issued our report dated November 13, 2003, on our consideration of the former Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with <u>Government Auditing Standards</u> and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discuss the following report comments:

- The Former Sheriff Should Collect All Amounts Due From Districts And Pay Amounts Due To Districts
- The Former Sheriff Should Have Collected Prior Year Uncollected Amounts Due Tax Account

Respectfully submitted,

Bugu + Company CM PSC

Berger & Company, CPA, PSC

Audit fieldwork completed -November 13, 2003

LESLIE COUNTY FRED DAVIDSON, FORMER COUNTY SHERIFF SHERIFF'S SETTLEMENT - 2001 TAXES

January 5, 2003

Special

				Special				
Charges	Cou	inty Taxes	Tax	king Districts	Sc	hool Taxes	Sta	ate Taxes
Real Estate	\$	205 709	\$	240.729	\$	661 906	\$	200 275
	Ф	295,708	Э	340,728	Þ	661,896	Э	208,375
Tangible Personal Property Intangible Personal Property		48,875		72,317		130,333		162,520
Fire Protection		5 420						5,389
		5,439		4.0		01		20
Increases Through Exonerations		41		46		91		29
Omitted Taxes		20,703		23,277		46,341		14,589
Franchise Corporation		58,582		84,193		152,953		1 101
Additional Billings		1,690		1,830		3,826		1,191
Oil and Gas Property Taxes		71,454		80,339		159,937		50,351
Unmined Coal		82,298		92,532		184,212		57,992
Omitted Penalty Assessments		2,070		2,328		4,634		1,459
Penalties		2,326		2,719		5,291		2,252
Adjusted to Sheriff's Receipt		(24)		1,858		2,076		(3,103)
Gross Chargeable to Sheriff	\$	589,162	\$	702,167	\$	1,351,590	\$	501,044
Credits								
Exonerations	\$	5,122	\$	5,776	\$	11,466	\$	7,372
Discounts		6,878		8,106		15,638		7,086
Uncollected Franchise		3,032		4,401		7,979		
Receipts to Incoming Sheriff		88,503		99,799		196,291		63,375
Total Credits	\$	103,535	\$	118,082	\$	231,374	\$	77,833
Taxes Collected	\$	485,627	\$	584,085	\$	1,120,216	\$	423,211
Less: Commissions *	Ψ	20,926	Ψ	24,824	Ψ	44,809	Ψ	18,274
Less. Commissions		20,720		21,021		11,000		10,271
Taxes Due	\$	464,701	\$	559,261	\$	1,075,407	\$	404,937
Taxes Paid		464,159		558,046		1,073,122		407,443
Refunds (Current and Prior Year)		449		481		1,004		174
				ala al-				
Due Districts or (Refund(s) Due Sheriff)	ф	0.2	Φ	**	Ф	1.201	ф	(2 (00)
as of Completion of Fieldwork	\$	93	\$	734	\$	1,281	\$	(2,680)

LESLIE COUNTY FRED DAVIDSON, FORMER COUNTY SHERIFF SHERIFF'S SETTLEMENT - 2001 TAXES January 5, 2003 (Continued)

* Commissions:

10%	on	\$ 10,000
4.25%	on	\$ 1,482,923
4%	on	\$ 1,120,216

** Special Taxing Districts:

Library District	\$ 210
Health District	128
Extension District	127
Soil Conservation	59
City of Hyden	 210
Due Districts or (Refund(s) Due Sheriff)	\$ 734

LESLIE COUNTY NOTES TO FINANCIAL STATEMENTS

January 5, 2003

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The former Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of January 5, 2003, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bond which named the Sheriff as beneficiary/obligee on the bond.

LESLIE COUNTY NOTES TO FINANCIAL STATEMENT January 5, 2003 (Continued)

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2001. Property taxes were billed to finance governmental services for the year ended June 30, 2003. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 3, 2002 through January 5, 2003.

B. Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 2001. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 4, 2002 through January 5, 2003.

Note 4. Interest Income

The former Leslie County Sheriff earned \$1,442 as interest income on 2001 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The former Leslie County Sheriff collected \$4,388 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.



LESLIE COUNTY FRED DAVIDSON, FORMER COUNTY SHERIFF COMMENTS AND RECOMMENDATIONS

As of January 5, 2003

STATE LAWS AND REGULATIONS:

The Sheriff Should Collect All Amounts Due From Districts And Pay Amounts Due To Districts.

The proper distribution of tax money collected by former Sheriff requires the collection of receivables (including overpayment to some taxing districts) and the payment of these funds to the appropriate taxing districts. The following net collections and net payables should be made from the 2001 taxes:

Refunds Due To The Tax Account Ame		Amounts To Be Paid To C	<u>Others</u>	
Kentucky State Treasurer	\$2,680	Leslie County Fiscal Court	\$ 93	í
		Leslie County Schools	1,281	
		Library	210)
		Health	128	,
		Extension	127	,
		Soil Conservation	59)
		City of Hyden	210)

Former Sheriff Davidson's Response:

We've requested payment from State in order to pay others.

The Former Sheriff Should Have Collected Prior Year Uncollected Amounts Due Tax Account.

In prior year audit reports for the 1998 and 1997 taxes, the auditors' report recommended that the former Sheriff collect several receivables and pay several liabilities. The former Sheriff collected most of the receivables and paid all liabilities reported in those prior year reports. Since the former Sheriff did not collect all receivables, he transferred money from his 1999 property tax account to pay all 1998 and 1997 tax account liabilities. Those amounts are now due to be repaid to the 1999 property tax account. As of the current date, the following prior year refunds due to the former Sheriff's tax account have not been collected:

1998 Property Taxes-Uncollected Refunds		1997 Property Taxes-Uncollected Refunds			
Kentucky State Treasurer	\$1,168	Kentucky State Treasurer	\$156		

We recommend the former Sheriff collect amounts due from the state. Once the former Sheriff collects these refunds, he should deposit them into the 1999 property tax account as repayment of amounts transferred from the 1999 account to settle 1998 and 1997 tax liabilities.

Former Sheriff Davidson's Response:

We have contacted the state trying to settle this.

FRED DAVIDSON, FORMER COUNTY SHERIFF COMMENTS AND RECOMMENDATIONS January 5, 2003 (Continued)

INTERNAL CONTROL - RE	PORTABLE	CONDITION	S:
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None.

INTERNAL CONTROL - MATERIAL WEAKNESSES:

None.

PRIOR YEAR:

• The Former Sheriff Should Collect Prior Year Uncollected Amounts Due Tax Account

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



The Honorable Kenneth R. Witt, Leslie County Judge/Executive The Honorable Fred Davidson, Former Leslie County Sheriff The Honorable John Morgan, Leslie County Sheriff Members of the Leslie County Fiscal Court

> Report On Compliance And On Internal Control Over Financial Reporting Based On An Audit Of The Financial Statement Performed In Accordance With Government Auditing Standards

We have audited the former Leslie County Sheriff's Settlement - 2001 Taxes as of January 5, 2003, and have issued our report thereon dated November 13, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in <u>Government Auditing Standards</u> issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the former Leslie County Sheriff's Settlement - 2001 Taxes as of January 5, 2003 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under <u>Government Auditing</u> Standards.

- The Former Sheriff Should Collect All Amounts Due From Districts And Pay Amounts Due To Districts
- The Former Sheriff Should Have Collected Prior Year Uncollected Amounts Due Tax Account

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Leslie County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Report On Compliance And On Internal Control Over Financial Reporting Based On An Audit Of The Financial Statement Performed In Accordance With Government Auditing Standards (Continued)

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,
Buyer + Company CM PSC

Berger & Company, CPA, PSC

Audit fieldwork completed -November 13, 2003